

KEOTA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Keota Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Kevin Greiner	President	2006
Jim Branstad	Vice President	2005
Tom Edwards	Board Member	2005
Leslie Greiner	Board Member	2007
Jared Lyle	Board Member	2007

Board of Education
(After September 2005 Election)

Kevin Greiner	President	2006
Tom Edwards	Vice President	2008
Leslie Greiner	Board Member	2007
Jared Lyle	Board Member	2007
Robert Romoser	Board Member	2008

School Officials

Dave Harris	Superintendent	2006
Marlene Stoutner	District Secretary/Treasurer and Business Manager	2006
Michael Neary	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Keota Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Keota Community School District, Keota, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keota Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2006 on our consideration of Keota Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keota Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keota Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,061,826 in fiscal 2005 to \$2,942,770 in fiscal 2006, while General Fund expenditures increased from \$3,043,147 in fiscal 2005 to \$3,104,079 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$690,360 in fiscal 2005 to \$491,348 in fiscal 2006, a 28.8% decrease from the prior year. The District also transferred \$37,703 to the Debt Service Fund.
- The decrease in General Fund revenues was attributable to a decrease in state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in instruction and support services functional areas.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Keota Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Keota Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Keota Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Keota Community School District Annual Financial Report

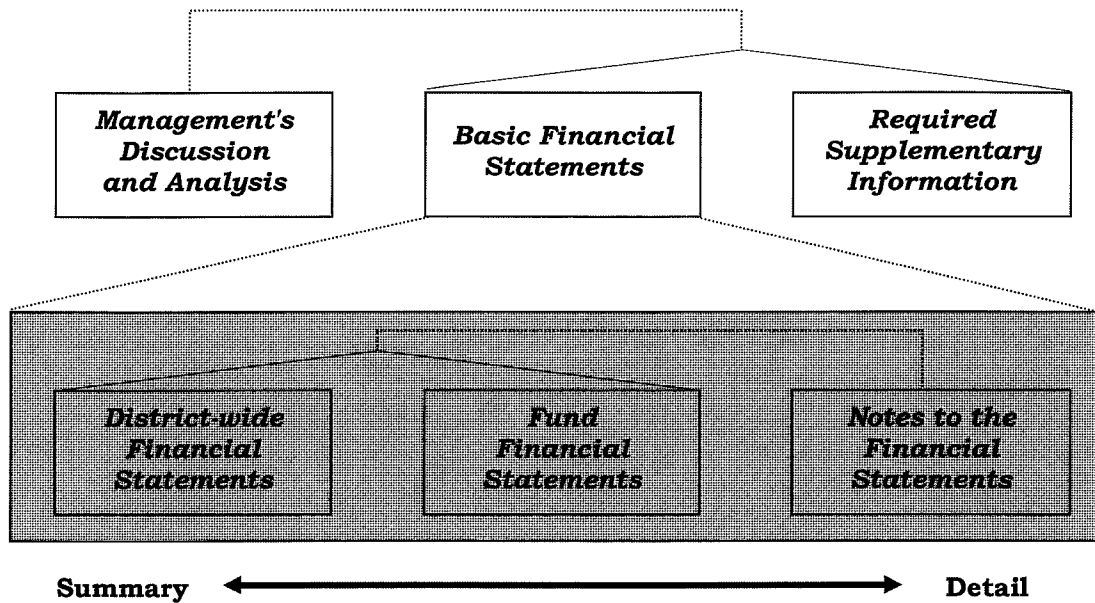


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 2,598,922	2,832,247	12,845	18,312	2,611,767	2,850,559	-8.38%
Capital assets	3,530,797	3,673,625	14,451	16,910	3,545,248	3,690,535	-3.94%
Total assets	6,129,719	6,505,872	27,296	35,222	6,157,015	6,541,094	-5.87%
Long-term obligations	2,751,911	2,955,862	0	0	2,751,911	2,955,862	-6.90%
Other liabilities	1,606,102	1,777,501	680	839	1,606,782	1,778,340	-9.65%
Total liabilities	4,358,013	4,733,363	680	839	4,358,693	4,734,202	-7.93%
Net assets:							
Invested in capital assets, net of related debt	759,438	802,530	14,451	16,910	773,889	819,440	-5.56%
Restricted	451,075	307,273	0	0	451,075	307,273	46.80%
Unrestricted	561,193	662,706	12,165	17,473	573,358	680,179	-15.70%
Total net assets	\$ 1,771,706	1,772,509	26,616	34,383	1,798,322	1,806,892	-0.47%

The District's combined net assets decreased by less than 1%, or \$8,570, compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. The invested in capital assets, net of related debt decreased \$45,551, or 5.56% over the prior year.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$143,802, or 46.8% over the prior year. The increase was primarily a result of the District receiving local option sales and services tax monies in fiscal 2006.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$106,821, or 15.7%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 226,807	216,733	86,917	86,264	313,724	302,997	3.54%
Operating grants and contributions and restricted interest	399,529	399,583	44,627	43,106	444,156	442,689	0.33%
General revenues:							
Property tax	1,798,437	1,847,698	0	0	1,798,437	1,847,698	-2.67%
Local option sales and service tax	177,551	153,772	0	0	177,551	153,772	15.46%
Unrestricted state grants	996,831	1,048,383	0	0	996,831	1,048,383	-4.92%
Other	18,843	18,459	305	343	19,148	18,802	1.84%
Total revenues	3,617,998	3,684,628	131,849	129,713	3,749,847	3,814,341	-1.69%
Program expenses:							
Governmental activities:							
Instructional	2,129,176	2,132,031	0	0	2,129,176	2,132,031	-0.13%
Support services	1,084,302	1,012,721	0	0	1,084,302	1,012,721	7.07%
Non-instructional programs	4,492	0	139,616	140,025	144,108	140,025	2.92%
Other expenses	400,831	407,838	0	0	400,831	407,838	-1.72%
Total expenses	3,618,801	3,552,590	139,616	140,025	3,758,417	3,692,615	1.78%
Change in net assets before capital contributions	(803)	132,038	(7,767)	(10,312)	(8,570)	121,726	-107.04%
Capital contributions	0	0	0	16,332	0	16,332	-100.00%
Change in net assets	(803)	132,038	(7,767)	6,020	(8,570)	138,058	-106.21%
Net assets beginning of year	1,772,509	1,640,471	34,383	28,363	1,806,892	1,668,834	8.27%
Net assets end of year	\$ 1,771,706	1,772,509	26,616	34,383	1,798,322	1,806,892	-0.47%

In fiscal 2006, property tax and unrestricted state grants account for 77.3% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 99.8% of the revenue from business type activities.

The District's total revenues were approximately \$3.75 million of which \$3.62 million was for governmental activities and \$.13 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 1.69% in revenues and a 1.78% increase in expenses. The increase in expenses was related to the increase in support services costs during the year.

Governmental Activities

Revenues for governmental activities were \$3,617,998 and expenses were \$3,618,801.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,129,176	1,609,037
Support services	1,084,302	1,084,302
Non-instructional	4,492	4,492
Other expenses	400,831	294,634
Totals	<u>\$ 3,618,801</u>	<u>2,992,465</u>

- The cost financed by users of the District's programs was \$226,807.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$399,529.
- The net cost of governmental activities was financed with \$1,798,437 in property tax, \$177,551 in local option sales and services tax, \$996,831 in unrestricted state grants and \$18,843 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$131,849 and expenses were \$139,616. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Keota Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$908,837, compared to last year's ending fund balances of \$973,613. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the decrease in the District's General Fund balance.

Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors:
 - Decrease in state aid grants resulted in a decrease in revenues.
 - The decrease in revenues along with the increase in expenditures, allowed in the General Fund balance to decrease \$199,012.

- The Capital Projects Fund balance increased from \$153,772 in fiscal 2005 to \$333,853 in fiscal 2006. The District received \$180,081 in local option sales and service tax during fiscal 2006.

Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$34,383 at June 30, 2005 to \$26,616 at June 30, 2006, representing a decrease of 23%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$30,101 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3,545,248, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.1% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$145,287.

The original cost of the District's capital assets was \$5,792,788. Governmental funds account for \$5,737,798 with the remainder of \$54,990 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$107,556 at June 30, 2006, compared to \$162,984 reported at June 30, 2005. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Capital Assets, Net of Depreciation							
	Governmental		Business-Type		Total		Total	
	Activities		Activities		School District		Change	
	June 30,		June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005	2005-06	
Land	\$ 12,310	12,310	0	0	12,310	12,310	0.00%	
Buildings	3,410,931	3,515,241	0	0	3,410,931	3,515,241	-3.06%	
Machinery and equipment	107,556	146,074	14,451	16,910	122,007	162,984	-33.59%	
Total	\$ 3,530,797	3,673,625	14,451	16,910	3,545,248	3,690,535	-4.10%	

Long-Term Debt

At June 30, 2006, the District had \$2,751,911 in general obligation and other long-term debt outstanding. This represents a decrease of 6.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$2,680,000 at June 30, 2006.

The District had outstanding bus loan indebtedness at June 30, 2006 of \$71,911.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 2,680,000	2,850,000	-6.0%
Bus loan	71,911	105,862	-32.1%
Totals	<u>\$ 2,751,911</u>	<u>2,955,862</u>	<u>-6.9%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District is still in a declining position with enrollment.
- Allowable growth set at 4% is still not keeping up with the increased cost of living. This coupled with enrollment decline continues to negatively impact the District's spending authority.
- The budget guarantee decline continues to plague our District.
- The uncertainty from year to year at the state level will affect future projections of the District's stability.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marlene Stoutner, District Board Secretary, Keota Community School District, P.O. Box 88, Keota, Iowa, 52248.

BASIC FINANCIAL STATEMENTS

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 895,537	12,013	907,550
Receivables:			
Property tax:			
Delinquent	20,565	0	20,565
Succeeding year	1,501,668	0	1,501,668
Income surtax	104,028	0	104,028
Accounts	7,750	0	7,750
Due from other governments	69,374	0	69,374
Inventories	0	832	832
Capital assets, net of accumulated depreciation (Note 4)	3,530,797	14,451	3,545,248
Total Assets	6,129,719	27,296	6,157,015
Liabilities			
Accounts payable	84,389	0	84,389
Accrued interest payable	20,045	0	20,045
Deferred revenue:			
Succeeding year property tax	1,501,668	0	1,501,668
Unearned revenue	0	680	680
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	175,000	0	175,000
Bus loan	35,270	0	35,270
Portion due after one year:			
General obligation bonds payable	2,505,000	0	2,505,000
Bus loan	36,641	0	36,641
Total Liabilities	4,358,013	680	4,358,693
Net Assets			
Investment in capital assets, net of related debt	759,438	14,451	773,889
Restricted for:			
Talented and gifted	28,882	0	28,882
Salary improvement program	5,301	0	5,301
Capital projects	333,853	0	333,853
Management levy	11,471	0	11,471
Physical plant and equipment levy	40,339	0	40,339
Other special revenue purposes	31,229	0	31,229
Unrestricted	561,193	12,165	573,358
Total Net Assets	\$ 1,771,706	26,616	1,798,322

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,442,892	108,707	293,332	(1,040,853)	0
Special instruction	281,300	0	0	(281,300)	0
Other instruction	404,984	118,100	0	(286,884)	0
	<u>2,129,176</u>	<u>226,807</u>	<u>293,332</u>	<u>(1,609,037)</u>	<u>0</u>
Support services:					
Student services	37,587	0	0	(37,587)	0
Instructional staff services	124,557	0	0	(124,557)	0
Administration services	366,462	0	0	(366,462)	0
Operation and maintenance of plant services	368,869	0	0	(368,869)	0
Transportation services	186,827	0	0	(186,827)	0
	<u>1,084,302</u>	<u>0</u>	<u>0</u>	<u>(1,084,302)</u>	<u>0</u>
Non-instructional programs:					
Other enterprise operations	4,492	0	0	(4,492)	0
Other expenditures:					
Facilities and acquisitions	62,900	0	0	(62,900)	0
Long-term debt interest	127,424	0	0	(127,424)	0
AEA flowthrough	106,197	0	106,197	0	0
Depreciation(unallocated)*	104,310	0	0	(104,310)	0
	<u>400,831</u>	<u>0</u>	<u>106,197</u>	<u>(294,634)</u>	<u>0</u>
Total governmental activities	3,618,801	226,807	399,529	(2,992,465)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	139,616	86,917	44,627	0	(8,072)
Total business-type activities	139,616	86,917	44,627	0	(8,072)
Total	<u>\$ 3,758,417</u>	<u>313,724</u>	<u>444,156</u>	<u>(2,992,465)</u>	<u>(8,072)</u>
General Revenues:					
Local tax for:					
General purposes				\$ 1,457,673	0
Debt Service				294,535	0
Capital outlay				46,229	0
Local option sales and services tax				177,551	0
Unrestricted state grants				996,831	0
Unrestricted investment earnings				18,843	305
Total general revenues				<u>2,991,662</u>	<u>305</u>
Changes in net assets				(803)	(7,767)
Net assets beginning of year				1,772,509	34,383
Net assets end of year				<u>\$ 1,771,706</u>	<u>26,616</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 535,413	277,859	85,275	898,547
Receivables:				
Property tax:				
Delinquent	15,830	0	4,735	20,565
Succeeding year	1,280,808	0	220,860	1,501,668
Income surtax	104,028	0	0	104,028
Accounts	7,750	0	0	7,750
Due from other governments	13,380	55,994	0	69,374
Total Assets	\$ 1,957,209	333,853	310,870	2,601,932
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ 0	0	3,010	3,010
Accounts payable	81,025	0	3,364	84,389
Deferred revenue:				
Succeeding year property tax	1,280,808	0	220,860	1,501,668
Income surtax	104,028	0	0	104,028
Total liabilities	1,465,861	0	227,234	1,693,095
Fund balances:				
Reserved for:				
Debt service	0	0	597	597
Talented and gifted	28,882	0	0	28,882
Salary improvement program	5,301	0	0	5,301
Unreserved	457,165	333,853	83,039	874,057
Total fund balances	491,348	333,853	83,636	908,837
Total Liabilities and Fund Balances	\$ 1,957,209	333,853	310,870	2,601,932

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 908,837

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not report as
assets in in the governmental funds. 3,530,797

Accounts receivable income surtax, are not yet available
to finance expenditures of the current period. 104,028

Accrued interest payable on long-term liabilities is not
due and payable in the current period and, therefore, is
not reported as a liability in the governmental funds. (20,045)

Long-term liabilities, including general obligation bonds
and bus loan, are not due and payable in the current period
and, therefore, are not reported as liabilities in the
governmental funds. (2,751,911)

Net assets of governmental activites (page 13) \$ 1,771,706

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,410,633	177,551	386,637	1,974,821
Tuition	108,707	0	0	108,707
Other	27,256	2,530	107,157	136,943
State sources	1,267,715	0	186	1,267,901
Federal sources	128,459	0	0	128,459
Total revenues	2,942,770	180,081	493,980	3,616,831
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,442,892	0	0	1,442,892
Special instruction	281,300	0	0	281,300
Other instruction	295,479	0	109,505	404,984
	2,019,671	0	109,505	2,129,176
Support services:				
Student services	37,587	0	0	37,587
Instructional staff services	124,557	0	0	124,557
Administration services	366,162	0	300	366,462
Operation and maintenance of plant services	305,047	0	63,822	368,869
Transportation services	140,366	0	7,943	148,309
	973,719	0	72,065	1,045,784
Non-instructional programs:				
Other enterprise operations	4,492	0	0	4,492
Other expenditures:				
Facilities acquisitions	0	0	62,900	62,900
Long-term debt:				
Principal	0	0	203,951	203,951
Interest	0	0	129,107	129,107
AEA flowthrough	106,197	0	0	106,197
	106,197	0	395,958	502,155
Total expenditures	3,104,079	0	577,528	3,681,607
Excess (deficiency) of revenues over (under) expenditures	(161,309)	180,081	(83,548)	(64,776)
Other financing sources (uses):				
Transfers in	0	0	37,703	37,703
Transfers out	(37,703)	0	0	(37,703)
Total other financing sources	(37,703)	0	37,703	0
Net change in fund balances	(199,012)	180,081	(45,845)	(64,776)
Fund balance beginning of year	690,360	153,772	129,481	973,613
Fund balance end of year	\$ 491,348	333,853	83,636	908,837

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (64,776)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense (142,828)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 1,167

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets 203,951

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,683

Changes in net assets of governmental activities (page 14)

\$ (803)

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 12,013
Inventories	832
Capital assets, net of accumulated depreciation(Note 4)	<u>14,451</u>
Total Assets	<u>27,296</u>
Liabilities	
Unearned revenue	<u>680</u>
Net Assets	
Investment in capital assets, net of related debt	14,451
Unrestricted	<u>12,165</u>
Total Net Assets	<u><u>\$ 26,616</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 86,917
TOTAL OPERATING REVENUES	<u>86,917</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	42,864
Benefits	18,252
Supplies	76,041
Depreciation	2,459
TOTAL OPERATING EXPENSES	<u>139,616</u>
OPERATING LOSS	<u>(52,699)</u>
NON-OPERATING REVENUES:	
State sources	2,167
Federal sources	42,460
Interest on investments	305
TOTAL NON-OPERATING REVENUES	<u>44,932</u>
Net loss	(7,767)
Net assets beginning of year	<u>34,383</u>
Net assets end of year	<u><u>\$ 26,616</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 86,245
Cash received from miscellaneous	513
Cash payments to employees for services	(61,116)
Cash payments to suppliers for goods or services	(65,064)
Net cash used in operating activities	<u>(39,422)</u>
Cash flows from non-capital financing activities:	
State grants received	2,167
Federal grants received	31,663
Net cash provided by non-capital financing activities	<u>33,830</u>
Cash flows from investing activities:	
Interest on investments	<u>305</u>
Net decrease in cash and cash equivalents	(5,287)
Cash and cash equivalents at beginning of year	<u>17,300</u>
Cash and cash equivalents at end of year	<u>\$ 12,013</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (52,699)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	10,797
Depreciation	2,459
Decrease in inventories	180
Decrease in unearned revenue	(159)
Net cash used in operating activities	<u>\$ (39,422)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 12,013</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$10,797.

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Keota Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Keota, Iowa, and the predominate agricultural territory in Keokuk and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Keota Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Keota Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Keokuk and Washington Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which

it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared

by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the

government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 895</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 37,703

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,310	0	0	12,310
Total capital assets not being depreciated	12,310	0	0	12,310
Capital assets being depreciated:				
Buildings	5,204,323	0	0	5,204,323
Machinery and equipment	521,165	0	0	521,165
Total capital assets being depreciated	5,725,488	0	0	5,725,488
Less accumulated depreciation for:				
Buildings	1,689,082	104,310	0	1,793,392
Machinery and equipment	375,091	38,518	0	413,609
Total accumulated depreciation	2,064,173	142,828	0	2,207,001
Total capital assets being depreciated, net	3,661,315	(142,828)	0	3,518,487
Governmental activities capital assets, net	\$ 3,673,625	(142,828)	0	3,530,797
Business-type activities:				
Machinery and equipment	\$ 54,990	0	0	54,990
Less accumulated depreciation	38,080	2,459	0	40,539
Business-type activities capital assets, net	\$ 16,910	(2,459)	0	14,451

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Transportation	\$ 38,518
	38,518
Unallocated depreciation	104,310
	<u>142,828</u>
Total governmental activities depreciation expense	\$ 142,828
Business-type activities:	
Food services	\$ 2,459
Total business-type activities depreciation expense	\$ 2,459

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,850,000	0	170,000	2,680,000	175,000
Bus loan	105,862	0	33,951	71,911	35,270
Total	\$ 2,955,862	0	203,951	2,751,911	210,270

Bonds Payable

Details of the District's June 30, 2006 general obligation bonds, which will be paid using Debt Service Funds, are as follows:

Year	Bond dated March 10, 1999			
Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.00 % \$	175,000	116,855	291,855
2008	4.00	185,000	109,855	294,855
2009	4.10	190,000	102,455	292,455
2010	4.10	200,000	94,665	294,665
2011	4.20	205,000	86,465	291,465
2012	4.30	215,000	77,855	292,855
2013	4.35	225,000	68,610	293,610
2014	4.40	235,000	58,823	293,823
2015	4.50	245,000	48,483	293,483
2016	4.55	255,000	37,855	292,855
2017	4.65	270,000	25,855	295,855
2018	4.75	280,000	13,300	293,300
Total		\$ 2,680,000	841,076	3,521,076

Bus Loan Payable

Details of the District's June 30, 2006 Bus Loan indebtedness, which are paid with General Fund monies are as follows:

Year Ending June 30,	Loans dated March 12, 2003				
	Interest Rates		Principal	Interest	Total
2007	3.85 %		35,270	2,432	37,702
2008	3.85		36,641	1,061	37,702
Total			\$ 71,911	3,493	75,404

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$103,512, \$101,350, and \$100,745 respectively, equal to the required contributions for each year.

(7) Risk Management

Keota Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses and insurance premiums.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2006 were \$299,510.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

Keota Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$106,197 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

KEOTA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,220,471	87,222	2,307,693	2,328,470	2,328,470	(20,777)
State sources	1,267,901	2,167	1,270,068	1,290,311	1,290,311	(20,243)
Federal sources	128,459	42,460	170,919	160,000	160,000	10,919
Total revenues	3,616,831	131,849	3,748,680	3,778,781	3,778,781	(30,101)
Expenditures:						
Instruction	2,129,176	0	2,129,176	2,398,047	2,398,047	268,871
Support services	1,045,784	0	1,045,784	957,366	1,032,366	(13,418)
Non-instructional programs	4,492	139,616	144,108	162,043	162,043	17,935
Other expenditures	502,155	0	502,155	555,793	555,793	53,638
Total expenditures	3,681,607	139,616	3,821,223	4,073,249	4,148,249	327,026
Excess(deficiency) of revenues over(under) expenditures	(64,776)	(7,767)	(72,543)	(294,468)	(369,468)	(296,925)
Other financing sources, net	0	0	0	(204,915)	(204,915)	(204,915)
Excess(deficiency) of revenues over(under) expenditures	(64,776)	(7,767)	(72,543)	(499,383)	(574,383)	(501,840)
Balance beginning of year	973,613	34,383	1,007,996	783,820	783,820	224,176
Balance end of year	\$ 908,837	26,616	935,453	284,437	209,437	(277,664)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$75,000.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

KEOTA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds					Total
			Physical	Total		Other
	Manage- ment Levy	Student Activity	Plant and Equipment Levy	Special Revenue Funds	Debt Service	Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 10,909	31,597	42,769	85,275	0	85,275
Receivables:						
Property tax:						
Current year delinquent	562	0	566	1,128	3,607	4,735
Succeeding year	55,000	0	49,005	104,005	116,855	220,860
Total Assets	\$ 66,471	31,597	92,340	190,408	120,462	310,870
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants issued over bank balance	\$ 0	0	0	0	3,010	3,010
Accounts payable	0	368	2,996	3,364	0	3,364
Deferred revenue:						
Succeeding year property tax	55,000	0	49,005	104,005	116,855	220,860
Total liabilities	55,000	368	52,001	107,369	119,865	227,234
Fund balances:						
Reserved:						
Debt Service	0	0	0	0	597	597
Unreserved	11,471	31,229	40,339	83,039	0	83,039
Total fund balances	11,471	31,229	40,339	83,039	597	83,636
Total Liabilities and Fund Balances	\$ 66,471	31,597	92,340	190,408	120,462	310,870

KEOTA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage-	Student	Physical	Total	Debt	Other
	ment	Activity	Plant and	Special	Service	Nonmajor
	Levy		Equipment	Revenue		Governmental
			Levy	Funds		Funds
REVENUES:						
Local sources:						
Local tax	\$ 45,873	0	46,229	92,102	294,535	386,637
Other	0	105,165	1,050	106,215	942	107,157
State sources	22	0	22	44	142	186
TOTAL REVENUES	45,895	105,165	47,301	198,361	295,619	493,980
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	109,505	0	109,505	0	109,505
Support services:						
Administration services	0	0	0	0	300	300
Operation and maintenance						
of plant services	36,780	0	27,042	63,822	0	63,822
Student transportation	7,943	0	0	7,943	0	7,943
Other expenditures:						
Facilities acquisitions	0	0	62,900	62,900	0	62,900
Long-term debt:						
Principal	0	0	0	0	203,951	203,951
Interest	0	0	0	0	129,107	129,107
TOTAL EXPENDITURES	44,723	109,505	89,942	244,170	333,358	577,528
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)						
EXPENDITURES	1,172	(4,340)	(42,641)	(45,809)	(37,739)	(83,548)
OTHER FINANCING SOURCES:						
Transfers in	0	0	0	0	37,703	37,703
EXCESS (DEFICIENCY) OF REVENUES AND OTHER						
FINANCING SOURCES OVER (UNDER) EXPENDITURES	1,172	(4,340)	(42,641)	(45,809)	(36)	(45,845)
FUND BALANCE BEGINNING OF YEAR	10,299	35,569	82,980	128,848	633	129,481
FUND BALANCE END OF YEAR	\$ 11,471	31,229	40,339	83,039	597	83,636

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,255	1,917	2,158	1,014
Basketball	0	9,417	9,417	0
Track	0	790	790	0
Cross Country	0	400	400	0
Football	(210)	0	(210)	0
Volleyball	0	5,497	5,497	0
Athletics	0	2,814	2,814	0
Miscellaneous	0	529	514	15
Cheerleaders	674	940	1,352	262
FFA	3,925	19,549	19,060	4,414
FCCLA	1,351	2,179	534	2,996
Student Council	4,610	3,363	4,376	3,597
Project Close-up	4,500	2,162	6,658	4
Class of 2005	(69)	69	0	0
Class of 2006	1,706	29,977	31,683	0
Class of 2007	484	1,436	1,417	503
Class of 2008	1,898	130	0	2,028
Class of 2009	1,743	0	(1)	1,744
Class of 2010	1,013	0	0	1,013
Special Baseball	1,037	5,820	5,440	1,417
Special Boys Track	425	500	409	516
Special Volleyball	3,329	2,062	1,633	3,758
Special Girls Track	836	500	171	1,165
Special Softball	292	7,749	5,012	3,029
Special Boys Basketball	2,716	2,062	3,682	1,096
Special Girls Basketball	4,052	2,062	3,456	2,658
Tournament	2	3,241	3,243	0
Total	\$ 35,569	105,165	109,505	31,229

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,974,821	2,003,961	1,932,155	1,890,497
Tuition		108,707	120,494	131,901	122,144
Other		136,943	114,698	114,780	125,360
State sources		1,267,901	1,312,969	1,220,613	1,275,099
Federal sources		128,459	134,997	139,977	147,120
Total		\$ 3,616,831	3,687,119	3,539,426	3,560,220
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,442,892	1,492,419	1,427,249	1,519,719
Special instruction		281,300	256,290	525,755	413,399
Other instruction		404,984	380,720	148,884	198,633
Support services:					
Student services		37,587	42,016	41,879	37,944
Instructional staff services		124,557	103,735	48,308	37,684
Administration services		366,462	363,463	392,841	418,151
Operation and maintenance of plant services		368,869	321,058	265,770	249,393
Transportation services		148,309	128,725	118,320	386,411
Non-instructional programs		4,492	0	0	0
Other expenditures:					
Facilities acquisitions		62,900	67,612	53,254	80,245
Long-term debt:					
Principal		203,951	192,680	181,458	157,640
Interest		129,107	140,277	150,500	152,898
AEA flow-through		106,197	107,097	108,594	115,337
Total		\$ 3,681,607	3,596,092	3,462,812	3,767,454

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Keota Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keota Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Keota Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keota Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Keota Community School District and other parties to whom Keota Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keota Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2006

KEOTA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Sponsor Procedures - We noted during our audit that the Senior class sponsor did not turn in collected receipts to the administration for deposit. The sponsor maintained the cash collection in his office and subsequently bought and paid for purchases from the available cash on hand.

The breakdown of control procedures for the receipting process becomes apparent as the sponsor maintains the collected revenue. The maintenance of the undeposited funds in the office provides a risk of loss due to possible theft, improper use or loss, as well as lack of reporting of the funds. The District is required to maintain records for the student activity fund.

In addition to the collection and maintaining of the monies in the office the sponsor also made purchases from undeposited money. These purchases did not have proper approval of the board. Chapter 279.29 of the Code of Iowa requires all purchases to be audited and allowed by the board. The sponsors' actions, have replaced the approval of the purchases to his level. The board has in essence been eliminated in any say of the appropriateness of the purchases.

Recommendation - The possible impropriety of revenues and expenditures is undeterminable without records to document the transactions of posting of receipts and expenditures. The district should take necessary steps to require all individuals to turn in collected money and should require all expenditures to go through the disbursing procedures as required by the Board of Directors. Sponsors who knowingly circumvent the processes and procedures prescribed by the Board of Directors should be held accountable for their actions, as they pose a substantial risk for loss of assets and improper use of funds which the Board of Directors is held accountable.

Response - The District has taken all the necessary steps to require all individuals in all activities to turn in collected money and the District is requiring all expenditures to go through the disbursing procedures as required by the Board of Directors.

Conclusion - Response accepted.

- I-C-06 Credit Card Procedures - We noted during our audit that the Senior class sponsor used a personal credit card for the purchase of supplies for club expenses and then requested reimbursements for those expenditures from the district. Subsequently, items were returned and the returns were credited to the original credit card used in the purchase, which was the sponsor's personal credit card. The District requested a reimbursement from the employee.

Recommendation - The use of personal credit cards creates possible problems such as identified above. The District should consider if there is an alternative to employees using their personal credit cards and when and what type of expenditures is allowable for reimbursement if they are allowable.

Response - The District is not allowing personal use of credit card for certain types purchases. The alternative is to have the District write a check, which is no problem.

Conclusion - Response accepted.

KEOTA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the certified budget amount in the support services function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will try to monitor the budget more closely and file a timely amendment when needed.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Lisa Brenneman, Principal Spouse owns Brenneman Construction	Repairs	\$948
Crystial Wright, Secretary Spouse owns B&C Welding	Repairs	\$459

In accordance with Attorney General's Opinion dated November 9, 1976, the above transactions with the employee's spouses don't appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.